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Audit's

MARKET ANALYSIS OF SECURITIES OF REITS AND REAL ESTATE COMPANIES

#29

LPO 1087 GRIT 1087  
 TCR 1087 LHC 1087  
 DWPA 1087 TRATS 107  
 TEA 1087 TRHS 107

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## MARKET STRATEGY: MAKING MONEY ON THE CONSOLIDATION MOVES AMONG SMALLER REITS

The inevitable moves to consolidate smaller REITs from the 1985-86 wave of REIT offerings has begun in earnest, opening some interesting opportunities for aggressive investors. Items:

o **CPL REIT** (now \$7.38, OTC) has agreed to be acquired by **Dial REIT** (\$19.25--OTC) in a \$14.9 mil. stock exchange valued at \$8.70-\$8.80 per CPL share. Davenport, Ia. based CPL was able to acquire only one of its planned shopping center properties as leasing on remaining planned acquisitions faltered. Offered at \$10 in Dec. 1985, CPL shares skidded as low as \$5.50 before the Dial offer was made.

o **Harris-Teeter Properties**, (\$9.50--ASE) sponsored by the southeastern regional supermarket chain of the same name, agreed to be acquired by **IRT Property Co.** for 1,428,000 (or approx. \$25.9 mil. value) IRT shares at the rate of 0.57 IRT sh. per HTP sh. (about \$10.33 per HTP share). HTP was to own nine newly built community shopping centers with 541,000 sq. ft. ASE-listed HTP came public in Aug. 1986 at \$10 per share.

o **Lincoln N.C. Realty Fund** (\$11.88--ASE) has agreed to accept a \$20

mil. capital infusion from **BRT Realty Trust** and **Gould Investors L.P.**, in return for 1.55 mil. shs. (44% of shs. to be outstanding) plus warrants for a like number of shs. An affiliate of Gould and BRT would take over management and expand LRF's intermediate-term lending. Foster City, Cal. based LRF's initial loans were primarily in Calif. and Color.; the move will give a renamed LRF a national focus. BRT's new capital will be valued at approx. \$12.70 per LRF share. LRF debuted in public markets by selling 2.0 mil. units, of one share plus a warrant for one share, at \$15 in Dec. 1985.

o **Del E. Webb Corp.**, as part of a restructuring, has announced intent to tender for the outstanding shares and warrants of **Del E. Webb Investment Properties** (\$6.13--ASE). No purchase price or terms have been announced. Investment Props. sold units of one sh. and one wt. at \$10 in July 1985.

Two other items tell how brutally tough are today's real estate markets:

o **Rainier Realty Investors** liquidated in July 1987 after being unable to invest \$34.7 mil. proceeds of an April 1985 stock offering at \$10. Holders received \$9.14 cash or a 7-year Rainier Bancorp note for \$10 with 8.25% interest. (Turn page)

RANKING REVIEW ISSUE	REVIEWS OF STOCKS	
Market Strategy..... 1	Grubb & Ellis Rlty. Inc.. 5	Travelers REIT.....6
Realty Stock Averages..... 8	Linpro Specified Props... 2	Travelers Rlty. Inc....7
News & Company Comments... 7	L&N Housing Corp..... 6	Turner Equity Inv.....3
	Trammell Crow Real Est... 3	(Del) Webb Inv. Prop...2
		Comments: Equitec Fin..8

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o **Travelers Realty Income Trust** returned \$3.10 per sh. in May from its March 1985 offering at \$20 because it couldn't meet projected return goals.

In each case the pattern is roughly the same: a small REIT which failed to live up to promise and decided to pack all or part of it in. Shareholder results are mixed: holders of two will lose money initially (CNTRS and Rainier), holders of one will gain a bit (HTP), and the jury is out for holders of the rest.

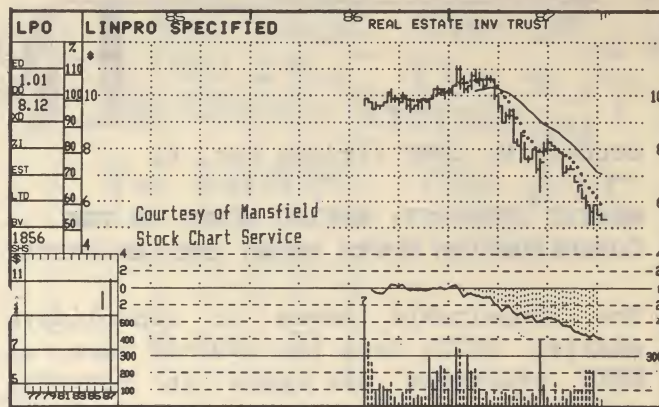
This group is not alone in feeling market pressure: 20 of the 27 REIT initial public offerings (IPOs) of 1985 sell below offering price today, and 11 of the 1986 class of 12 IPOs are in the same boat. Some have established sound records but have failed to excite large numbers of investors. The market, for now, is focusing upon seasoned REITs with proven track records and larger market capitalizations. Smaller issues are getting the cold shoulder.

In the belief that value will out, we highlight this issue several REIT stocks, both equity and mortgage types, whose current share prices are significantly below offering price but operations, while bumpy, are not wipeouts. If this trend repeats, a package investment approach to them may be rewarding.

#### FOUR EQUITY TRUSTS NOW SELLING WELL BELOW OFFERING PRICE HAVE VALUE

**Linpro Specified Properties** (\$5.13--ASE--LPO) shares have nosedived since its initial offering at \$10 in July 1986. Reason: a \$1.03 dividend rate has been cut 26% to 76¢ rate. Here's a look at what could be ahead.

**EPS/Dividends:** After its offering, LPO acquired a 68% equity interest in a partnership owning eight substantially leased commercial and industrial properties then owned by operating entities of the sponsor. On a pro forma basis the properties would have produced 88¢ operating net cash flow in the year to Mar. 1986. LPO was to receive a preferential noncumulative return of 10.25% of uncovered capital (i.e., initial sales



price) from net cash flow. Hence a \$1.03/sh. dividend was projected for each of ten years. Actual experience has been quite different, as follows:

#### EPS/Dividends (Dec. years):

	1986A	1987E	1988E	3 Yr.%
EPS.....	\$0.43a	\$0.82	\$0.80	NM%
Dividend.	\$0.43a	\$0.76	\$0.76	NM%

a-For five mon.; equals \$1.03/year.

LPO owns a 68% interest in Linpro Income Fund I (LIF), a Penn. general partnership owned 30% by a Minority Partner (itself a partnership of investors with different tax motives than stock investors); and Linpro Natl. Corp., a unit of Linpro Equities. Linpro was formed in 1972 as the northeastern unit of national developer Lincoln Property Co., Dallas, and became independent in 1977. Linpro entities have developed over 5 mil. sq. ft. commercial space and 12,500 apartments.

**Assets:** LIF owns six offices (78% of cost), one shopping center (16%), and one warehouse (6%), with occupancy at Sept. 30, as follows:

Project/Location	Th.SF	Occ.%
Academy Downs, Lakewood, CO..	117T	78%
Twin Forks Off.Pk., Raleigh, NC.	73	98
1 Greentree Ctr., Marlton, NJ.	55	100
2 Greentree Ctr., Marlton, NJ.	56	84
3 Greentree Ctr., Marlton, NJ.	68	100
Greentree Sq. SC, Marlton, NJ.	110	92
Lincoln Ctr., Parsippany, NJ.	78	75
Iron Run Whs., Allentown, PA.	96	100
TOTALS.....	654T	90%a

a-Incl. 7.1% developers leases.

LPO lost a major tenant, Martin Marietta with 51,460 SF, in one of two buildings at Academy Downs but has replaced with a 24,000 SF tenant. Martin's lease on a second 65,660 SF build-



ding expires Mar. 1987 and renewal status is uncertain. A large Parsippany tenant has been partly replaced. Developers' leases on 40,200 remaining SF run to mid-1989.

**Financing:** LPO itself is unleveraged with \$17.1 mil. investment in LIF and no significant liabilities. LIF however is leveraged with \$16.1 mil. equity over \$48.3 mil. mortgage debt. LIF's Minority Partner pays \$3.24 mil. in staged payments over three years thru 1989.

**Exposure:** LPO's dividend seems secure for this year but any change in status of the large Denver lease could impact 1988 payout. While rental competition may have eroded near-term values, shs. at a 43% discount to \$9.23 book value provide above-average yield and longer-term recovery potential.

**Trammell Crow Real Estate Investors** (\$11.38--NYSE--TCR) shares also have fallen 23% from a \$15 offering price, partly due to publicity over breakup of the Chicago branch of the Crow organization (not involved in TCR), and partly to vacancies at its Dallas and Charlotte industrial properties. The \$1.40 dividend has held firm. We are ranking shs. C initially.

**EPS/Dividends - B (Dec. yrs.):**

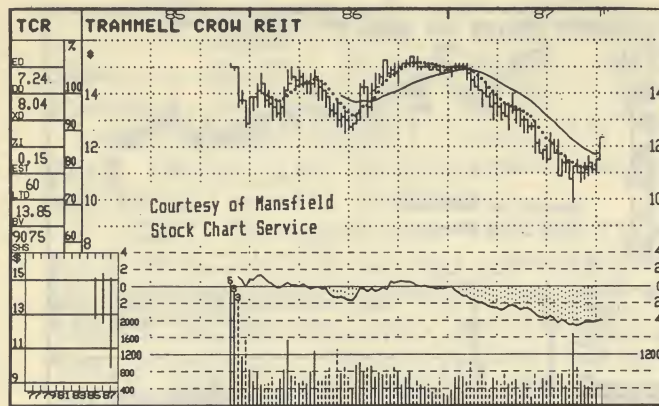
	1985A	1986A	1987E	3 Yr.%
EPS.....	\$0.018a	\$0.156	\$0.10	NM%
CFS.....	\$0.13	\$1.40b	\$1.38b	NM%
Dividend.	\$0.00	\$1.40	\$1.40	0.0%

a-From Sept. 26 to Dec. 31. b-Partly supported by master lease payments.

TCR's distributable cash is the most important measure for investors. Cash flow of \$1.40 in 1986 was aided by 3.9¢ subordinated management fees not paid. Cash flow fell 1.4% in the 6 mon. to June to 69¢ and should be level with that for 1987. Modest pickup is seen for 1988 as leasing expands.

Dividends should hold at \$1.40 and be about 70% tax free return of capital for 1987, due to zero note discount.

**Assets and Operations:** TCR owns 3.35 mil. SF Sunbelt industrial space plus a 192,000 SF specialty retail center in Denver. About 45% of industrial space is in Dallas or Houston, the rest widely diversified in Baltimore, Charlotte, Ft. Lauderdale, Los Angeles,



Milwaukee, Minneapolis, and Seattle. TCR is a play on growth in industrial space, a sector where occupancy has held up well (about 95% nationally) amid office overbuilding.

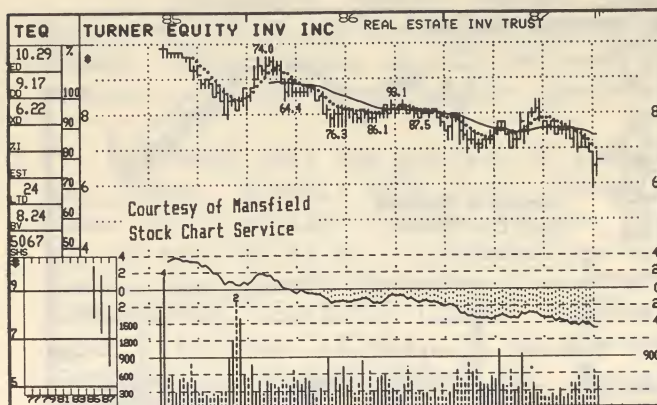
Leasing has been strong and TCR leased 280,000 SF in the Sept. qtr., nearly double the 150,000 SF of the first half. About 29% of TCR space was initially supported by developers' leases from the Trammell Crow Co. partnerships selling their properties to TCR, and this support level is now down to about 20%. Developers' leases run thru June 1989 for the Houston properties (787,000 SF or 82% of all lease support) and thru Dec. 1987 for the remainder. These lease supports have kept TCR revenues and cash flow near projection targets, altho failure of a large Charlotte tenant (56,000 SF) in mid-1987 hurt June qtr. cash flow.

**Financing - C:** Debt of \$72.9 mil. is 0.66 times \$110.5 mil. shareholders' equity or \$12.78/sh. Debt is \$19.5 mil. mortgages and \$53.5 mil. discounted value of a \$179.7 mil. zero coupon note due Nov. 1997 amortizing at 12.0%.

**Exposure - C:** Aforementioned publicity plus dumping of shares by a West Coast fund manager drove share prices lower recently. Properties certainly aren't appreciating at the 12% rate on the zeros now, so shareholders are in effect spending future values. TCR reported \$13.10 current value at Dec. 1986. Withal, shares are sound value at 12.1% yield.

**Turner Equity Investors Inc.** (\$6.88--ASE--TEQ) is an equity REIT sponsored by Turner Development Corp. (TDC), subsidiary of general contractor





Turner Corp. Cash flow has been hurt by competitive office markets. TEQ came public at \$10 in July 1985.

EPS/Dividend (Dec. yrs.):

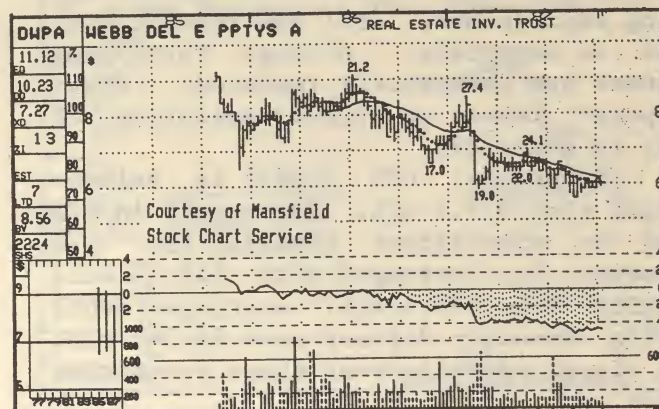
	1985A	1986A	1987E	3 Yr.%
EPS.....	\$0.13a	\$0.04	(\$0.04)	NM%
CFS.....	\$0.35a	\$0.77	\$0.60	NM%
Dividend.	\$0.35a	\$0.80	\$0.80	0.0%

a-Period Feb. 28 to Dec. 31, 1985.

TEQ earnings under general accounting principles are misleading, as funds available for distribution (cash flow) is the pivotal concern. CFS fell 20.5% in the first half of 1987 to 31¢ per sh. and may erode a bit further in the second half. The primary source of cash flow is payments from sellers of TEQ's original properties which guarantee minimum yield to TEQ; payments are recorded as a reduction of purchase price.

Assets and Operations: TEQ initially bought four offices with 465,700 rentable SF for \$54.2 mil. or \$116.38/SF. All were developed by TDC and TEQ paid 90% at closing, with the rest held back as guarantee for minimum yield during the lease-up. Recent leasing has been reasonably strong and now averages 80%; all were new properties when bought and some have leased slower than others, with the two largest (N.J. near Phil. and Tampa) most competitive. In Aug. TEQ restructured its largest Tampa lease, allowing American Fitness Ctr. to buy the tenant, bring delinquencies current, and reduce rents initially on the 42,000 SF. These properties and Sept. 30 occupancy are:

Property/location	Th.SF	Occ.
Briarwood Cir., Ann Arbor, MI..	77T	96%
265 Davidson, Frnkln Twp., NJ.	178	61
Gatewood Pl, Fairfax City, VA.	89	95
The Crossings, Tampa, FL.....	122	86



To diversify, TEQ in April invested \$5 mil. in a participation mortgage at 9.25% (plus 50% of cash flow) on a 338,200 SF Aurora, Ill. shopping center (Yorkshire Plaza, now 93% leased); and \$3.4 mil. in McGregor Place, fully leased garden apartment in St. Petersburg, Fla. This latter is structured as a \$1.4 mil. investment earning 11.5% initially plus money market return on the remaining \$2 mil., held in escrow till Nov. 1989.

Financial Measures: Debt of \$23.9 mil. is 0.6 times \$39.6 mil. equity, equal to \$7.99 per sh. TEQ doesn't publish current value but some estimates place it in the \$9-\$10 range.

Exposure: TEQ's largest property is cash flow positive at 61% occupancy because it carries no debt. But total cash flow won't cover payout until leasing picks up in N.J. Thus there's some risk of further dividend erosion. TEQ's properties are new and competitive, so should do well longer-term.

Del E. Webb Investment Properties, Inc. (\$6.13--ASE--DWP.A) may be subject of a tender offer from its sponsor, Del E. Webb Corp. (WBB), as part of the sponsor's restructuring. While WBB has said publicly that it intends making the tender, price and terms haven't been disclosed.

EPS/Dividends: DWP earnings have been under pressure from the highly competitive Phoenix office market, where all DWP properties are located. As a result, the 63¢ per sh. cash flow of 1986 was not enough to cover the 85¢ dividend. This year DWP has been paying recently at the rate of 45¢ per sh., half of the 90¢ rate of early 1986.



Because yield has not approached 10% return on initial offering price, the adviser has abated advisory fees for 1986 and 1987 to date totaling approx. 15¢ per sh.

**Assets and Operations:** DWP owns offices, shopping centers and one apartment in the Phoenix area with about 234,600 SF space. Some offices have been hurt and two large tenants with 33,000 SF at two offices totaling 90,000 SF (37% of space) have leases expiring in the first half of 1988. Present indication is that rents will fall even if tenants remain.

**Finances:** Debt of \$6.7 mil. is 0.35 times \$19.05 mil. equity or \$8.57 per share. Accumulated depreciation is 41¢ per sh. DWP has 2.2 mil. warrants to buy shs. at \$9.50 until July 1990.

**Outlook:** Our smell is that any tender by the sponsor likely will be at \$8.00 per sh. or more; on that basis, shs. look interesting.

#### FOUR MORTGAGE TRUSTS SELLING BELOW BOOK VALUE AND WITH YIELD STABLE TO RISING

We review and update here four participating mortgage REITs. One was offered in 1981 and now sells at a modest 21% discount to book value while the others were all sold in 1984 and 1985 and sell at 14% to 45% discounts to book. This suggests that these mortgage REITs may have modest appreciation potential. Three yield 10% or more, and yield seems reasonably well covered regardless of future interest rate moves. The four:

	Book	Price	Disc.	Yld.
Grubb & El.RI..	\$9.15	\$8.00	-13%	11.4%
L&N Housing...	23.28	18.63	-20%	6.5
Travelers REIT.	9.48	5.88	-38%	15.6
Travelers RIn.	14.70	8.00	-45%	14.9

**Grubb & Ellis Realty Income Trust (\$8.00--GRIT--OTC):** has, apart from investor oversight, been an underperformer in the stock market. It just realized a mortgage participation of \$15,000 in its Livermore (CA) Arcade and in May of 1986 increased its portfolio by \$3.6 mil. GRIT's \$2.9 mil loan in Pepperwood Plaza matures in Feb. 1988 and GRIT should have little difficulty in matching its 11.25% yield. We are Ranking the shares B in our initial ranking.

#### EPS/Dividends - C (Dec. years):

	1985A	1986A	1987E	3 Yr.%
EPS.....	\$0.53a	\$0.74b	\$0.80	NM
Dividend.	\$0.41	\$0.79b	\$0.90	NM

a-For period Feb. 22 to Dec. 31; b-Excl. 18¢/sh. gain on prepayment penalty and 8¢/sh. special dividend.

GRIT increased its dividend payout by 2.3% to 22-1/2¢ in July of this year as cash available for distribution was 23¢/sh. in the Mar. qtr. and 22¢/sh. in the June Qtr. Participation mortgage income has started coming on-stream.

**Assets:** GRIT's portfolio consists of all first mortgages except the Livermore, Cal. loan below, which has an 11% weighted average return. GRIT seeks to invest in participating mortgages which share in increases in revenues and appreciation. GRIT has a participation interest, sharing increases in revenues and appreciation in the Moss Creek, Interface, and Livermore Plaza loans.

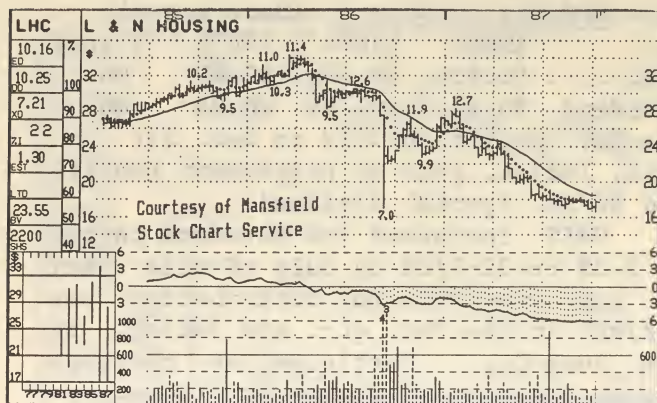
Property/Location	Mil.\$	Yld.
MossCrk.Apts.Garden Grove CA	\$5.6a	10.5%
Interface Tech., Glendora,CA..	5.75	10.5
#Pepperwood Plaza, Tempe,AZ...	2.9a	11.3
Vally. Com. Cent.,Phoenix, AZ..	2.6a	11.5
Livermore (CA) Arcade Shp.C...	2.4a	11.0

a-Unfunded commitments remaining totaled \$4.9 mil. for the four above loans and an as-of-yet unfunded commitment for Wier Business Courte, Phoenix, as of June 30, 1987; #-Non-participating 1-year loan that may be repaid prior to Feb. 1988 maturity.

Occupancy of buildings in GRIT's mortgage portfolio is: Interface Technology building (84,000 sq. ft.) is 100% leased; The Livermore Arcade (110,000 SF) is 97% leased; Baseline Bus. Park (100,000 SF) is 92% leased; Pepperwood Plaza (35,000 SF) is 55% leased; Moss Creek (144DU) is 95% leased; Valley Commerce Center is 51% leased.

**Financial Measures - B:** GRIT has no debt and does not intend to borrow to increase lending capacity. GRIT has expensed but not paid its advisory fee of 8% of income before such fee because the fee is subordinated to a 10% return on initial stock price to investors (shs. were sold in \$20 units of two shs. and 1 wt. to buy shs. at \$9.50 thru Apr. 10, 1990). At June 30, 1987 1,250,000 warrants were outstanding; each wt.





unexercised will convert into 1/5 a common share at expiration. GRIT purchased 60,000 wts. at \$1.50/wt. and 20,000 at \$1.25/wt. As of June 30, GRIT's sponsor has outstanding options to buy 37,500 more wts. at a price of \$1.50.

**Exposure - B:** With most initial properties experiencing good leasing, GRIT's main exposure is to interest rate fluctuations. GRIT intends to liquidate in approximately 10 years. Shares at 14% below \$9.15 book value are attractive for 11.4% yield.

**L&N Housing Corp.** (\$18.63--LHC--NYSE). Designed as an aggressive participating mortgage REIT, market conditions were excellent at inception and LHC invested in projects yielding from 12% to 15%. Today, overbuilding, economic straits in its principal markets and the roll-over of its investments at much lower rates spell trouble for LHC. We lower the shares rank to C.

**EPS/Dividends - C (Dec. years):**

	1985A	1986A	1987E	3 Yr.%
EPS.....	\$3.02	\$2.46	\$1.25	-35.7%
Dividends.	\$3.02	\$2.17	\$1.20	-37%

**Assets and Operations:** LHC retains none of its 10 original, high yield, investments. Of the 10 projects financed, three remain on LHC's books at reduced yields. They are the Knollwood Apts. in Denver (\$4.3 mil. funded, 102 DU, 98% occ.), the St. Tropez Apts. in San Antonio (\$4.95 mil. funded, 273 DU, 78% occ.) and the Willowglen I Apts. in Denver (\$5.115 mil funded, 128 DU, 95% occ.). These mortgages originally had an average weighted yield of 12.5%, but terms have been renegotiated and the new yield is likely to be 6% (when the deve-

loper's liability expires in 12/87 on the Willowglen).

In Apr. 1987 the Fifth Season Apts. in Tampa were refinanced, returning \$3.8 mil. of LHC's original investment of \$4.95 mil (88%). Of the remainder, LHC received a \$500,000 participating mortgage. During the June qtr. LHC acquired deed in lieu of foreclosure to the Rivercrest I Apts. in Houston (\$4.5 mil. funded, 140 DU, 117,894 SF, 80% occ.). LHC charged \$300,000 to loan loss reserves. LHC sold its leasehold interest in the Walker's Mark Apts., Dallas (\$5.6 mil. funded, 164 DU, 965 occ.) in June for its full value plus \$390,000 in deferred interest to be realized in the Sept. qtr.

In Apr. 1987 LHC committed \$5.9 mil. for a Warwick, RI project yielding 9.5% and in the June qtr. another \$5.2 mil. for a Ft. Lauderdale project with a current yield of 9.75%. LHC will fund its remaining 1986 commitment as well as the two made in 1987 by year's end.

**Financial Measures - B:** LHC has no debt and doesn't intend borrowing to fund investments. Shareholders' equity of \$51.2 mil. equals \$23.28/sh.

**Exposure - C:** Recent results indicate LHC is feeling impact of real estate depression in the Oil Patch. Shs. should be approached cautiously.

**Travelers REIT** (\$5.88--TRATS--OTC) came public in May 1984. TRATS earnings are suffering from the default of its largest single mortgage investment as it determines the size of an appropriate loan loss reserve and is currently filing to foreclose on the mortgage. This is reflected in a price-to-book ratio of 0.61. We are Ranking the shares C in our initial ranking.

**EPS/Dividends - C (Dec. years):**

	1985A	1986A	1987E	3 Yr.%
EPS.....	\$1.07	\$1.07	\$1.00	-3%
Dividend.	\$1.04	\$1.04	\$0.90	-7%

TRATS earnings have been flat since it commenced operations on May 3, 1984. June 6 mo. EPS of 49¢ were down about 9%. In Aug. TRATS reported the default of a previously restructured \$7.2 mil. mortgage loan secured by a 140-room motel with a Holiday Inn franchise in Covington, LA. TRATS had been receiving the equivalent of 6¢/sh. on the loan per



qtr. in 1987.

Assets and Operations: TRATS holds six investments (excluding the Covington, LA loan) with a weighted average yield of 13.83%. The portfolio in dollar terms is mortgages: fixed, 45%; participating, 35% and land purchase/leasebacks (land beneath an income producing property is bought and leased back to the building owner), 20%. Holdings include:

<u>Property/Location</u>	<u>Mil.\$</u>	<u>Yld.</u>
France Pl.Off./Bl'mington,MN.	\$1.9a	12.5%
MacArthur Pl.Off./Irving, TX.	2.7a	12.5
Holiday Inn, Gaithersburg,MD.	4.3	14.5
Cornell Ctr.Off./Blue Ash, O.	2.65	14.5
Laurel Apts., Laurel, Md.....	3.5b	14.75
Holiday Inn, Covington, LA...	7.2c	12.0
Marriott Hotel, Greentree,PA.	0.5c	10.5

a-Land/leasebacks. b-Second mortgage. c-Participating mortgages.

Travelers Insurance Co. has guaranteed rent payment on the land/leasebacks for the first 10 years; offices are 190,000 SF and 175,000 SF respectively. Travelers Corp. insurance subsidiaries also participate with TRATS in the 217-rm. Gaithersburg Holiday Inn and Blue Ash, O. complex, and a sister trust (see below) participates with TRATS in the Pittsburgh area 482-rm. Marriott.

Financial Measures - C: TRATS has no debt and does not expect to borrow to expand lending capacity. Equity of \$23.9 mil., equals \$9.48/sh. TRATS is a finite life REIT intending to liquidate in about 15 years. The advisor, a subsidiary of Travelers, receives 0.875% advisory fee plus performance fee. There are no warrants.

Exposure - C: TRATS took a hit on its most vulnerable investment (approx. 32% of its portfolio) in the troubled LA economy. With participation and guarantees running to the sponsor on four of the remaining six investments and the absence of significant debt, TRATS presents limited risk. Shares at a 39% discount to book value seem attractive, assuming no further surprises in LA.

Travelers Realty Income Trust (\$8.00--TRIIS--OTC) is also sponsored by Travelers Corp. and like its sister Co., has its own LA mortgage loan in default. The impact of the default on TRIIS'

earnings has been more significant than that of TRATS, as it has already written down the bad loan. Both Co.'s stocks have hit new lows as this is written. We are giving C Rank to shares.

EPS/Dividends - C (Dec. years):

	1985A	1986A	1987E	3 Yr.%
EPS.....	\$1.11a	\$0.79b	\$1.20	NM
Dividend.	\$0.80a	\$1.60	\$1.19	NM

a-Period Mar. 28 to Dec. 31, 1985; b-After loan loss reserves and non-accrual of interest of 90¢/sh. offset by standby fee of 21¢/sh.

On May 20, 1987 TRIIS paid a special return of capital of \$3.10/sh. representing funds from its initial public offering that it had committed to a \$11.65 mil. first mortgage, which was not funded; because rate projections as outlined in its IPO prospectus could not be met, TRIIS distributed the funds to shareholders. As a result, EPS for the June 6 mo. fell 15% to 64¢ and the second half will be lower because of fewer funds working.

Assets and Operations: TRIIS's investment portfolio stands at \$31.2 mil. reflecting both the return of funds and \$1.75 mil. reserve. TRIIS is primarily invested in mortgage loans with equity enhancements. Weighted average yield is 10.77%. Holdings and commitments are:

<u>Property/Location</u>	<u>Mil.\$</u>	<u>Yld.</u>
Ramada Inn/Slidell, LA.....	\$ 7.5	11.8%
Marriott/Greentree, PA.....	8.7	10.5
Apartment/Lexington, KY....	6.6a	10.4
Hotel mortgage pool.....	6.0	10.3

a-Participating mortgages on projects under construction.

Financial Measures: TRIIS has no debt and does not intend borrowing to make investments. Shareholders' equity of \$33.2 mil. equals \$14.70/sh. There are no warrants. TRIIS has about \$1 mil. available for new investments.

Exposure: TRIIS does not have the same backup of participations with other Travelers' entities as does TRATS. With its stock 45% below book value and yielding 14% (excluding any LA surprises), shares seem attractive.

#### NEWS AND COMPANY COMMENTS: REALTY STOCKS BEAT THE MARKET FOR FIRST TIME IN MONTHS

The performance table on page 8 shows that realty stocks gained 0.2% the past



two weeks, vs. declines of 0.1% and 0.8% for the S&P 500 and Dow-Jones Industrials respectively. Our tables were priced on the day the DJI took its record 91.55 point plunge and the performance is evidence that many realty stocks resist going lower. See our table on the value gap in realty stocks, RSR, Aug. 28. Items:

o **Equitec Financial Group Inc.** (\$9.38--NYSE) said directors recommended shareholders accept a tender offer at \$10 per share for 3.7 mil. shares, or 75% of EFG. PacifiCorp., Portland, Ore. utility holding company, began the tender to expand its financial services. RSR reviewed EFG favorably Sept. 11 and we added it to our Portfolio Selector on Sept. 25 as an aggressive recovery holding. While we see longer-term recovery, we'd take the tender.

o **Angell Care Master Limited Partnership** (\$12.38--NYSE) plans converting to a corporation qualifying as a REIT. If limited partners approve, the new Angell Real Estate Co. will begin operating Jan. 1. Each MLP unit would be converted into one share. ANG says conversion is expected to simplify administration, make ANG more easily understood by investors, and increase future capital raising ability. ANG would be the first new MLP to convert to REIT status. UDC-Universal recently offered to exchange a new preferred stock for its LP units to ease transition for holders concerned about whether Congress may tax MLPs as corporations. See "What's Ahead for MLPs," RSR, July 10.

o **Radice Co.** (\$3.13--NYSE) wasn't able to pay interest on its 14.625%

subordinated debentures by the Sept. 30 grace period and continues to hold discussions with lenders. No results are public. See RSR, July 24 and Sept. 25.

o **Johnstown American Cos.** (\$2.88--ASE) has settled with former owners of Consolidated Capital Equities Corp. effectively reducing JAC's July 1985 acquisition price for ConCap by \$35 mil. to about \$90 mil. If accepted, holders of \$50 mil. JAC preferred would exchange shares for 4.0 mil. JAC common and warrants to buy 1.0 mil. JAC common at \$4.50. JAC would also get the first \$10 mil., and 50% thereafter, of cash distributions from two ConCap realty partnerships. JAC expects about \$12 mil. losses in its Aug. qtr. due to ConCap.

o **Major Realty Corp.** told New York City security analysts that its net asset value per share was \$22. Property appraisals were done in connection with acquisition of about 22% of stock by Michigan investor Randon Samelson (RSR, Aug. 14 and Aug. 28). Hold.

o Three Sierra Capital REITs reduced distributions as follows:

**Sierra Capital Realty VI** (\$9.00 common, \$9.38 pfd.--ASE) lowered common payout by 16.7% to 50¢ annual rate (\$0.0416 mon.) and pfd. by 17% to 58¢ annual (\$0.0486 mon.). Trustees tightened dividend policy to finance lease turnover costs from cash flow instead of from reserves and/or borrowings.

**Sierra Real Estate Equity Trust '84** (\$6.38--OTC) cut payout 80% to 10¢ annual rate (\$0.025/qtr.), from 50¢ rate.

**Sierra Real Estate Equity Trust '83** (\$8.63--OTC) cut rate 62% to 25¢ annual rate (\$0.0625/qtr.), from 65¢ rate.

COMPARATIVE REALTY STOCK GROUP AVERAGE 10/06/87

GROUP NUMBER & NAME	DIV	NON-DIV	TOTAL	SHARE (000)	BOOK VALUE	ANNUAL DIV	EARN ANN	LAST PRICE	-% CHANGE FROM SEP 22	JAN 1	P/E RATIO	ANNUAL YIELD	% PR TO BK	RETURN ON BK	MARKET VAL (000)
1 PROPERTY REITS	55	3	58	6851	11.00	1.11	1.07	14.57	0.4	-2.9	13.6	7.6	32.5	9.7	6368.9
2 PROP & MTG COMB REITS	22	3	25	6136	12.45	1.39	0.95	12.77	-0.3	-10.8	13.5	10.9	2.6	7.6	2003.6
3 MORTGAGE REITS	15	3	18	6618	13.70	1.62	1.57	13.40	-1.5	-11.2	8.6	12.1	-2.2	11.4	1591.4
4 PARTICIPATING MTG REITS	13	0	13	8595	11.36	1.06	1.05	9.64	-2.0	-21.9	9.2	10.9	-15.1	9.2	1293.2
5 MAJOR HOMEBUILDERS	8	4	12	21130	9.39	0.28	1.29	13.27	1.2	-3.6	10.3	2.1	41.3	13.8	2885.4
6 OTHER BLDRS/DEVELOPERS	7	24	31	6879	5.37	0.14	0.36	8.12	0.1	3.4	22.8	1.8	51.1	6.6	1784.5
7 INCOME PROP BLDR/OWNR	24	12	36	7327	11.46	0.80	0.88	15.94	1.1	0.3	18.2	5.0	39.2	7.7	4095.6
8 MORTGAGE BANKER/FINANCE	13	4	17	13802	10.25	0.84	1.03	13.38	-0.6	-9.6	13.0	6.3	30.4	10.0	5467.2
9 DIVERSIFIED RLTY&HOLDING	13	5	18	20772	15.18	0.36	1.10	19.62	2.4	26.1	17.8	1.8	29.3	7.3	13535.4
10 RLTY SVCS/SYNDICATORS	1	7	8	7842	5.82	0.02	0.58	10.41	0.8	21.1	17.9	0.2	78.8	10.0	612.4
11 MANUFACTURED HOUSING	4	6	10	8891	6.91	0.15	0.42	9.81	-3.4	-1.6	23.5	1.5	42.0	6.1	1267.1
12 ASBESTOS ABATEMENT CO	0	5	5	20818	2.76	0.00	0.07	9.13	-4.5	-17.2	123.3	0.0	230.6	2.7	895.9
L LIQUIDATING COMPANIES	0	1	1	5968	0.88	0.00	-1.32	2.63	5.0	0.0	NC	NC	198.3	NC	15.7
P PREFERRED STOCKS	1	0	1	1650	10.00	1.10	0.00	12.63	0.0	4.1	NC	NC	26.3	NC	20.8
OVERALL AVERAGE			253	9468	10.41	0.80	0.92	13.24	0.2	-1.8	14.3	6.1	27.2	7.7	41837.1
DOW JONES INDUSTRIALS							126.23	2548.63	-0.8	34.4	20.2	2.7			
STANDARD & POOR'S 500							14.30	319.22	-0.1	31.8	22.3	2.8			
DOW JONES UTILITIES							18.13	197.90	-0.3	-3.9	10.9	8.1			